

## Treasury Management Monitoring Q2 2023/24

### Purpose

As required by the CIPFA 2021 Prudential and Treasury Management Codes, Cabinet are required to receive quarterly updates on the Treasury activities of the Council. This report meets those requirements.

### Executive Summary

This report focuses on the treasury debt and investment activity of the Council and therefore excludes capital expenditure, as this is reported separately, and other long term liabilities as these are instruments for specific capital financing and do not impact on the day to day treasury portfolio.

The key movements in the debt and investment portfolios are summarised below with additional detail throughout this report.

	31 Mar 23	30 Sep 23
	£m	£m
<b>Debt Portfolio</b>		
General Fund	143.007	151.282
HRA	327.801	323.734
<b>Total</b>	<b>470.808</b>	<b>475.016</b>
<b>Investments</b>	<b>30.454</b>	<b>115.750</b>
<b>Net Debt (Treasury)</b>	<b>440.354</b>	<b>359.266</b>

The position as at 31 March 2023 has been restated to remove the £250k loan to the 6Towns Credit Union (previously included as investment). This follows the winding up of the organisation with Administrators finally being appointed on 5<sup>th</sup> September 2023. A provision was already held within the financial accounts to account for these potential losses.

The Director of Finance can confirm that there have been no breaches of the approved treasury and prudential indicators and all deposits have been placed in accordance with the approved counterparty selection criteria.

### Recommendations

That Cabinet note the contents of this treasury monitoring report.

#### 1. Investment Portfolio

- 1.1. The investment balances held have increased from £30.45m to £115.75m in line with expected cash flows. The large increase is primarily due to grants

and contributions received at the start of the year in advance of expenditure being incurred. This compares to £125.51m held in investments at the same period last year.

1.2. A summary of the treasury activity and portfolio by investment type as at 30<sup>th</sup> September 2023 is summarised in the tables below:

Investment Portfolio Movements	Cash Manager (Bank)	Money Market Funds	Fixed Interest	Total Invested	Portfolio Yield at Qtr End
	£m	£m	£m	£m	%
<b>31 Mar 2023</b>	<b>0.620</b>	<b>19.834</b>	<b>10.000</b>	<b>30.454</b>	<b>4.15%</b>
<b>Q1 Activity</b>					
Withdrawals/ Maturities	(4.623)	(156.912)	(10.000)		
New Deposits	4.707	215.186	5.000		
<b>30 Jun 2023</b>	<b>0.704</b>	<b>78.108</b>	<b>5.000</b>	<b>83.812</b>	<b>4.36%</b>
<b>Q2 Activity</b>					
Withdrawals/ Maturities	(6.317)	(181.489)	-		
New Deposits	6.195	213.549	-		
<b>30 Sep 2023</b>	<b>0.582</b>	<b>110.168</b>	<b>5.000</b>	<b>115.750</b>	<b>5.26%</b>
<b>Portfolio as at 30 September 2023</b>	<b>Investment</b>		<b>Average year to date</b>		
	<b>£m</b>	<b>Yield %</b>	<b>Average Investment £m</b>	<b>Average Yield %</b>	
MMFs	110.168	5.29%	74.337	4.91%	
Cash Mgr	0.582	1.45%	0.667	1.27%	
Fixed Interest (Short [365 days or less])	5.000	4.97%	5.191	4.88%	
<b>Grand Total</b>	<b>115.750</b>	<b>5.26%</b>	<b>80.195</b>	<b>4.87%</b>	

1.3. The second quarter of the financial year did not see any changes to the fixed term deposits held with all investment movements being managed within the Money Market Funds and general bank account.

1.4. The comparable benchmark (overnight SONIA) was 4.74% as at end September 2023 and therefore the performance achieved by the Treasury Services team are above benchmark with returns being 4.87% for the first 6 months of the year on average investment balances of £80.2m.

1.5. As can be seen from the tables above, the total yield on the investment portfolio has been increasing. It is forecasted that we are now at the peak of the interest rate increases with current levels being held for some time before the Monetary Policy Committee start to introduce cuts to the Bank Rate which will inevitably feed through to the investment returns. These returns are higher than budgeted (4.40% average yield included in base budget) and a forecast of excess investment income it is reflected in the Q2 monitoring report.

1.6. The majority of the Council's investment portfolio is held in Money Market Funds and these are proactively managed to ensure that sufficient liquid resources are available to service day to day expenditure commitments such

as salaries, general creditor payments and housing benefit payments.

1.7. The approved counterparty selection criteria as approved by Council in February 2023 is currently fit for purpose and no proposed amendments are therefore required.

## 2. Debt Portfolio

2.1. The Council's debt portfolio is mostly long dated fixed rate loans from PWLB or other markets. A small proportion of the debt portfolio consists of loans from other local authorities which assist with short term debt management and cash flow requirements.

2.2. Another element of the debt portfolio consists of amounts deposited with the Council from the Fire Authority, Sandwell Leisure Trust and Children's Trust. These are at agreed variable rate terms in line with either actual Council treasury investment performance or Bank Rate as published by Bank of England. These amounts are held as liquid as they are repayable on demand as and when required.

2.3. The Council's loan portfolio has been split between the General Fund and Housing Revenue Account since 2012 when HRA Self Financing was introduced. The following table summarises the movements in the debt portfolios in the first half of the year:

	General Fund			HRA			Grand Total
	Fixed Rate	Variable Rate	Total GF	Fixed Rate	Variable Rate	Total HRA	
	£m	£m	£m	£m	£m	£m	£m
<b>31 Mar 23</b>	<b>103.074</b>	<b>39.933</b>	<b>143.007</b>	<b>327.801</b>	<b>-</b>	<b>327.801</b>	<b>470.808</b>
<b>Q1 Activity</b>							
Fixed Rate Maturities	(35.297)			-			
New Fixed Rate Loans	25.000			-			
Net Movement in Variable Rate Loans		2.978			-		
<b>30 Jun 23</b>	<b>92.777</b>	<b>42.911</b>	<b>135.688</b>	<b>327.801</b>	<b>-</b>	<b>327.801</b>	<b>463.489</b>
<b>Q2 Activity</b>							
Fixed Rate Maturities	(6.500)			(4.067)			
New Fixed Rate Loans	-			-			
Net Movement in Variable Rate Loans		22.094			-		
<b>30 Sep 23</b>	<b>86.277</b>	<b>65.005</b>	<b>151.282</b>	<b>323.734</b>	<b>-</b>	<b>323.734</b>	<b>475.016</b>

2.4. The detail of the fixed rate maturities totalling £10.6m in Q2 is listed below:

- £5m short term loan (2 month) from Swansea CC at 4.56%
- £4.5m long term loan (27 years) from PWLB at 8.625%
- £1.1m scheduled repayments of interest free loans and other local authority debt.

2.5. The large increase in variable debt holdings relate to the cash we hold on behalf of the Fire Authority, Sandwell Leisure Trust and Sandwell Children's Trust. This movement is in line with expected cash flows and is expected to fall to close to opening levels by year end.

2.6. The effect on the average interest rate on the fixed interest debt portfolio from the movements highlighted above is shown in the following table:

	31 Mar 23		30 Sep 23	
	Principal £m	Avg Rate	Principal £m	Avg Rate
<b>Fixed Rate Debt</b>				
General Fund	103.074	3.83%	86.276	4.59%
HRA	327.801	4.91%	323.734	4.86%
<b>Total</b>	<b>430.875</b>	<b>4.65%</b>	<b>410.010</b>	<b>4.80%</b>

2.7. Despite the sharp rise in the average debt rate on the General Fund, the lower debt levels mean that the revenue impact is not significant to give cause for concern. At the present time no variances are predicted on the debt costs to the council for 2023/24, but this will be closely monitored and reported accordingly to the Leadership Team and Cabinet.

2.8. The current strategy is to only take short dated debt due to market conditions and to refinance for longer periods at the appropriate time to prevent longer term cost burden on the council's revenue budgets.

### 3. Prudential Borrowing Indicators

3.1. The key prudential indicators in relation to the Council's borrowing are detailed below:

	£m
Authorised Limit (Debt)	830.696
Operational Boundary (Debt)	512.310
Maximum Treasury Debt to 30 Sep 23	493.019
Average Treasury Debt to 30 Sep 23	464.721

*Note: The authorised limit and operational boundary shown above are for debt levels only and exclude other long term liabilities (as detailed in the Treasury Management Strategy Report) as these are PFI/ Finance Lease arrangements. These indicators have been updated to the proposed levels as included in the TMSS Mid Year Review report.*

3.2. As can be seen from the table above, treasury debt levels are within limits and no breaches have occurred.

